

2013 Legislative Proposals to be Presented to the Board

At the December 2012 SDRS Board of Trustees' meeting, SDRS staff will present proposed legislation for Board approval. If approved by the Board, the legislation will be introduced through the Legislature's Retirement Laws Committee and move forward as Board-sponsored bills in the upcoming 2013 Legislative Session.

The first proposed legislative change relates to the city of Sioux Falls' request to add its new employees to SDRS. Current South Dakota statute states that if a public employer elects to participate in SDRS, then all permanent, full-time employees shall become members (includes either or both Class A and Class B employees). Because current statute does not allow for partial participation of any class, this proposal would provide that city of Sioux Falls employees hired after June 30, 2013, shall become members of SDRS. City of Sioux Falls employees hired on and prior to June 30, 2013, will remain participants in the current city of Sioux Falls retirement plan.



The second proposal provides for clarification of South Dakota Codified Law (SDCL) 3-12-122. This statute pertains to the timeframe in which the Board of Trustees and the Legislature may initiate corrective action to protect the system if certain financial conditions occur in any given year. This section of law was a point of contention in the recent retiree lawsuit. The proposed change would specify that the Board of Trustees shall make recommendations and the Legislature may take

corrective actions if any of the following conditions exist at the end of any fiscal year:

- 1) The contributions do not equal the actuarial requirement for funding;
- 2) The funded ratio is less than 80 percent, or a ratio based on the market value of assets is less than 80 percent; or
- 3) The market value of assets is less than 90 percent of the actuarial value of assets.

The current requirement that corrective action must be recommended by the Board of Trustees if any of the financial conditions outlined in SDCL 3-12-122 exist for three consecutive fiscal years will remain unchanged.

The third legislative proposal brings SDRS into compliance with the Internal Revenue Code. This proposal adds a definition for the timeframe used in determining the maximum retirement benefits a member may receive each year. The definition would mirror the system's definition of plan year (fiscal year). The proposal also updates references to the Internal Revenue Code.

The Board of Trustees may also consider legislation designed to clarify who may participate in the SDRS Special Pay Program (SDRS-SPP).

Copies of the SDRS legislation and related documents will be available on the SDRS website, www.sdrs.sd.gov.

SDRS' Focus on the Long-Term

SDRS has successfully maintained the financial integrity of the system through both the good and the difficult years and remains a very secure plan for its membership. SDRS has accomplished this envied position using very conservative benefit designs and long-term funding assumptions. During its last two meetings, the SDRS Board of Trustees has taken steps to make these long-term assumptions even more conservative and fiscally responsible.

In the past year, there have been many news reports predicting the financial collapse of public retirement systems and the essential need for these systems to

reduce retirement benefits. And, it is true that many public retirement systems are struggling to meet their on-going liabilities – the payment of present and future pension benefits. However, SDRS has remained strong through these difficult times because the Board of Trustees, in its fiduciary responsibility, has been cautious and preemptive in its management of the system and, along with its stakeholders, has remained focused on SDRS' long-term sustainability.

For more information on this topic, please see the "Outlook Interview With Eric Stroeder on the Future of SDRS" in this issue.

Funded Status and CPI Define SDRS COLA

The SDRS Board of Trustees will take final action in December 2012 to establish the annual improvement factor – better known as the cost-of-living adjustment (COLA) – that will be effective July 1, 2013.

South Dakota law defines the procedure to establish the COLA by linking it to the SDRS funded status – the ratio of plan assets compared to plan liabilities – and the Consumer Price Index (CPI). The law further provides that the COLA to SDRS benefit payments each year cannot exceed 3.1 percent or be less than 2.1 percent. At a funded status of 100 percent or greater, benefit payments receive the maximum COLA of 3.1 percent. If the funded status falls below 100 percent, the COLA is reduced accordingly:

- If the funded status is between 90 percent and 99.9 percent, the COLA is equal to the CPI with a 2.1 percent minimum and a 2.8 percent maximum.

- If the funded status is between 80 percent and 89.9 percent, the COLA is set to the CPI with a 2.1 percent minimum and a 2.4 percent maximum.
- If the funded status falls below 80 percent, the COLA is 2.1 percent, regardless of the CPI.

Based on the preliminary SDRS funded status as of June 30, 2012, and the CPI as of September 30, 2012, it is anticipated that the SDRS COLA effective July 1, 2013, will be 2.1 percent.

In addition, the Social Security Administration (SSA) has recently announced that effective January 1, 2013, SSA benefit recipients will receive a cost-of-living adjustment of 1.7 percent. A fact sheet on the Social Security increase and other 2013 SSA changes can be found on the SSA website:

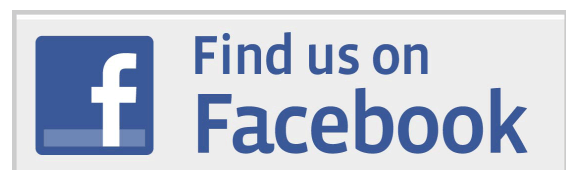
www.ssa.gov/pressoffice/factsheets/colafacts2013.htm.

SDRS Establishes Social Media Presence by Joining Facebook

Social media has quickly become a part of everyday life for people across the state, the country, and the world. With a membership presence across the globe, SDRS has expanded its communication efforts by joining Facebook.

With Facebook, SDRS' page offers a new way for members, retirees, and others to stay updated on SDRS information. It provides an interactive method of communicating directly with our membership to relay issues and updates concerning SDRS, as well as retirement planning information and other topics of interest and

importance, in a timely and convenient manner. SDRS invites you to "like" us on Facebook. Stay connected with SDRS in another way!



www.facebook.com/SouthDakotaRetirementSystem

Outlook

Interview

*...With Eric Stroeder
on the Future of SDRS...*



Eric Stroeder

Mr. Stroeder is a Transportation Engineer Supervisor for the South Dakota Department of Transportation. He serves on the SDRS Board of Trustees as a state employee representative. In the following interview, Mr. Stroeder discusses the future of SDRS.

Outlook: The SDRS Board of Trustees has had many discussions over the last several meetings regarding the future direction and long-term sustainability of SDRS. In terms of a pension plan, what is sustainability?

Stroeder: Sustainability is the ability to endure through changing times. Defined benefit pension plans, such as SDRS, are designed to last into perpetuity by carefully balancing income, which are contributions and investment earnings, with expenses, including benefit payments. This balancing act must be maintained long-term for a plan to be sustainable.

Outlook: The future is so uncertain. How does SDRS anticipate what will happen 20, 30, or even 40 years down the road?

Stroeder: In a system with so many variables, it is impossible to predict what will happen with 100 percent accuracy. But we must make an “educated guess” for future planning efforts. We do this by looking at past trends to make assumptions about how the future will unfold. Assumptions are made for many factors, including investment returns, retirement ages, final average salaries, and mortality rates.

In the past, SDRS had a cushion of reserves that could be tapped into when assumptions were not met. However, after several years of tough economic conditions, those reserves are gone. This makes the accuracy of our assumptions all that much more important.

If our assumptions are off in a positive direction, such as an investment return greater than our assumed rate of 7.25 percent, there are more funds to pay benefits and rebuild our cushion. On the other hand, if our assumptions are off target in a negative way, it is best to have contingency plans in place to handle the shortfall.

Outlook: Is this why the Board is reviewing the current benefit structure?

Stroeder: The Board has always been proactive in its management of SDRS rather than reactive. It is with the collective membership’s best interest in mind that we continue to look at ways to ensure that SDRS remains sustainable.

Over the next year and beyond, the Board will be looking at all the benefits SDRS provides to its members and their families. In going through this process, there is the possibility that some benefits could be modified to adhere to our fiduciary responsibility to protect the system for all members.

Outlook: Compared to other pension plans, SDRS seems to be in an excellent position. How has SDRS stayed so strong?

Stroeder: With the economic conditions of recent years, many pension plans have fallen into crisis and have had no choice but to cut benefits to get back into balance. SDRS was able to weather the down years through proactive action and conservatism that allowed for a large reserve of funds to be built up during the good years.

Our system is viewed as a model system on the national scene. With so many pension plans struggling, there have been strong pushes to do away with defined benefit plans, like SDRS. However, we have proven that a pension plan, when managed wisely, can function successfully while living within its means to provide a good value to its members.

As a Board, we must continue to take a conservative approach in our management of SDRS. This philosophy has sustained SDRS for nearly 40 years. By continually evaluating the plan’s benefits and rebuilding reserves to offset poor investment years, we can safeguard our SDRS for all current members and the members of generations to come.



South Dakota Retirement System

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Get Back in the Game...With SDRS~SRP

Am I on the right track to achieve the retirement of my dreams? How much additional personal savings will I need? Will I be financially secure during my retirement?

These are all important questions to ask yourself in your retirement planning efforts. Having a clear vision of what you want out of your retirement and having the money to fund that vision are essential elements of a good retirement plan.

The SDRS Supplemental Retirement Plan (SDRS-SRP) recently sent letters to encourage non-contributing participants to “get back in the game” by reactivating their SDRS-SRP contribution. While the letters were only received by those specific participants, this is a great time for all SDRS members to review their retirement portfolios. Non-participants may discover they could benefit from the SDRS-SRP and officially “get in the game.”

With tax-deferred savings, a variety of carefully selected investment options, extremely low annual asset fees,

and many withdrawal options to fit varying needs, the SDRS-SRP can be part of the answer to your financial security needs during retirement.



Will you have enough income to meet your retirement goals? The SDRS-SRP is on your side and there to assist you. Check out the On Your Side Interactive Retirement PlannerSM available on the SDRS-SRP website, www.srp457.com.

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